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PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

**Telecommunications Division
Market Structure Branch**

**RESOLUTION T-16925
April 7, 2005**

R E S O L U T I O N

Resolution T-16925. Verizon California Inc. (U-1002-C). In compliance with Ordering Paragraph #6 of D. 03-06-044 regarding transfer of Verizon Advance Data Inc. back to Verizon California Inc. Will be effective on April 7, 2005.

By Advice Letter No. 10550 Filed on July 1, 2003.

Summary:

Decision (D.) 03-06-044 granted Verizon Advanced Data Inc.'s (VADI) application to transfer its advanced data services assets and reintegrate with Verizon California Inc. (Verizon).

Background:

Verizon created VADI as a condition imposed by the Federal Communications Commission (FCC) in its order approving the merger of Bell Atlantic Corporation and GTE Corporation. The merger created Verizon as we know today. The FCC order required that Verizon transfer its advanced services such as digital subscriber line (DSL) service to a separate affiliate to protect against anti-competitor behavior. After this FCC order, Verizon applied to the California Public Utilities Commission (Commission) to transfer its intrastate advanced data services to VADI in Application (A.) 00-09-028. Thereafter, however, a federal

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appellate court ruled that the FCC's separate affiliate requirement would not mitigate the anti-competition problems that had concerned the FCC. The FCC, in its original order, decided that incumbents local exchange carriers (ILEC) could avoid the resale of advanced services to its competitors as long as the services are provided by a separate affiliate. The subsequent order by the federal appellate court reversed this separate affiliate requirement.

Because the resale of advanced services was what the ILECs were attempting to avoid, the DC Circuit's elimination of ILEC protection from resale obligation motivated Verizon to abandon its plans to house advanced services in a separate affiliate. Verizon therefore filed a motion to withdraw A. 00-09-028 and VADI filed A. 01-11-014 to seek permission to transfer advanced services back to Verizon.

D. 03-06-044 granted Verizon's motion to withdraw A. 00-09-028 and granted the transfer requested by VADI in A. 01-11-014. According to OP #6, Verizon shall file and serve a compliance filing in this proceeding containing an explanation of the accounting and ratemaking treatment it proposes to be employed. "It shall identify 1) the specific accounts from the FCC Part 32 Uniform System of Accounts that it will use to classify the assets, 2) the proposed ratemaking treatment of the assets (e.g., whether assets will be allocated to federal jurisdiction, state jurisdiction, or a combination), 3) whether it will treat the assets above-the-line or below-the line, and 4) the proposed NRF service categorization (Category I, II or III) of the advanced services, 5) the amount of assets subject to the license agreement between VADI and Verizon and the reimbursement paid to Verizon for the length of the license agreement, 6) the amount of collocation space transferred to VADI while it operated independently and the reimbursement paid to Verizon for collocation, and 7) whether VADI valued the assets it purchased and is now reintegrating at "original cost." The explanation of the accounting and ratemaking treatment shall also specify how Verizon intends

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to track the operation of the advanced services and its associated assets, liabilities, revenues and costs. Verizon shall include in its compliance filing the change in its organization chart from before and after the re-integration of VADI into Verizon.”

Notice/Protest:

Verizon states that a copy of the Advice Letter was mailed to interested utilities and/or parties and the parties in A. 01-11-014/A. 00-09-028. Notice of Advice Letter No. 10,550 was published in the Commission Daily Calendar on July 9, 2003.

On July 29, 2003, ORA filed a protest regarding Verizon’s compliance filing. Although Verizon, in its response on August 5, 2003, alleged that ORA’s protest was late, ORA’s protest was within the 20 days after appearance on the Commission’s Daily Calendar. The positions of both parties are summarized below.

Discussion:

Verizon filed Advice Letter (AL) No. 10,550 on July 1, 2003 in compliance with OP #6 of D. 03-06-044. Below is a summary of Verizon’s filing.

1. Telecommunications Plant in Service – Central Office Assets – Digital Electronic Switching and Circuit Equipment (Accounts 2212 and 2232), Telecommunications Plant in Service – Informational Origination/Termination Assets – Other Terminal Equipment (Account 2362) and Telecommunications Plant Under Constructions (Account 2003) are the accounts from the FCC Part 32 Uniform System of Accounts (USOA) that will be used to classify the assets.

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2. The assets associated with providing DSL services are directly assigned to “interstate” jurisdiction. The remaining non-DSL advanced service assets are allocated to both federal and state jurisdictions.
3. All asset accounts listed in Response #1 are considered above-the-line (ATL).
4. ATM service is categorized at Category III. All other former VADI services are Category II services.
5. The license agreement consisted of a fee for office space and related support equipment such as computers, furniture and office equipment as well as a fee for use of central office equipment. The net book value of the assets owned by Verizon subject to the license agreement is: \$7.9 million for office space and related support equipment and \$44.8 million for central office equipment. The license fee paid by VADI to Verizon was: \$7.2 million for office space and related support equipment and \$26.9 million for central office equipment.
6. VADI only utilized virtual collocation in California in accordance to an interconnection agreement. The total virtual collocation space is 1009 bays. VADI reimbursed Verizon \$77.8 million for virtual collocation.
7. The assets to be transferred due to the reintegration of VADI and Verizon were booked at “original cost” when purchased by VADI. Since then, VADI has depreciated those assets and the depreciation amounts were booked to “accumulated depreciation.” Both the asset values and the accumulated depreciation amounts will be transferred upon reintegration. The result on Verizon’s books will be net book value of the assets.
8. Verizon will be accounting for the assets, liabilities, revenues and costs incurred on an ongoing basis after reintegration by using appropriate FCC Part 32 USOA accounts. Detailed continuing property records will be kept to indicate the original purchasing entity (former VADI vs. Verizon).

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9. Verizon provided organization charts from before and after reintegration of VADI into Verizon. After reintegration, all support functions that had been resident within VADI will be returned to the Verizon Service Companies and the organizations shown within Verizon Domestic Telecom.

ORA filed a protest on July 29, 2003 stating that Verizon's AL 10,550 did not comply with OP #6 of D. 03-06-044. In its protest, ORA identified the areas in which it found the Verizon filing incomplete. ORA objected to Verizon's answers concerning:

1. Compliance Item #1 regarding proposed ratemaking treatment
2. Compliance Item #3 regarding treatment of the asset above or below-the-line
3. Additional compliance item regarding how (accounting and ratemaking treatment) Verizon intends to track the operation of the advanced services and its associated assets, liabilities, revenues and costs.
4. Additional compliance item regarding organization chart before and after re-integration of VADI into Verizon.

Verizon filed its response to the ORA protest on August 5, 2003 with additional information which contained supplemental information and responses to ORA's protest. Below is a summary of Verizon's 2nd Filing.

1. Local loop and other assets, which are used in providing local services, are not exclusive allocated to interstate jurisdiction. The equipment used exclusively in providing DSL service is recorded in Account 2232 and allocated entirely to interstate jurisdiction. Verizon provided a spreadsheet showing the dollar amount allocated between the jurisdictions for each of the asset accounts that may be subject to DSL provisioning. Non-DSL

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advanced services assets are recorded in Accounts 2212 and 2232. Allocation between these two accounts was provided by Verizon. These assets are recorded above-the-line (ATL). However, for regulatory purposes in California, the assets, expenses, revenues and liabilities related to ATM service will be treated as below-the-line pursuant to Commission Resolution T-15808.

2. FCC's Memorandum Opinion and Order (MO&O) 98-292 and MO&O 99-041 specified that DSL is an interstate service that should be tariffed at the federal level. Accordingly, Verizon treats the assets used to provide regulated interstate DSL service as ATL. DSL revenues will be booked ATL to FCC USOA Account 5083 and are treated as 100% interstate and ATL.
3. Account 4012 (Accounts Payable) will be used to book the liability related to ongoing purchases of DSL equipment. The accounts used to record exclusive DSL assets and DSL revenues is provided in #1 and #2 above. "Existing DSL assets" refers to equipment that was used exclusively to provide DSL service prior to the inception of VADI. This investment remained on the books of Verizon and was included in the licensing agreement with VADI for the use of advanced services equipment. Prior to the creation of VADI, Verizon California owned the equipment used to provide tariffed interstate DSL service. This equipment is recorded in Account 2232 and was not transferred from Verizon California to VADI pending the resolution of issues identified in A. 00-09-028 over jurisdictional authority. Instead, these assets were included in the license agreement between Verizon California and VADI for the use of the advanced services equipment. After creation of VADI, pursuant to the FCC Merger Conditions, Verizon California no longer purchased any advanced services equipment.
4. Verizon provided revised organization charts.

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ORA did not file additional comments or protests after receiving the additional information from Verizon.

With this additional information provided by Verizon, Verizon has met the requirements of OP #6 of D. 03-06-044.

311 Mailing Of Draft Resolution

In compliance with PU Code Section 311(g), a notice letter was e-mailed on March 8, 2005 to the parties that this draft resolution is available at the Commission's website <http://www.cpuc.ca.gov> and is available for public comments. In addition, TD informed these parties of the availability of the conformed resolution at the same website. For those parties without e-mail address, this draft resolution was mailed in accordance with PU Code Section 311(g).

Findings:

1. D. 03-06-044 granted VADI's application to transfer its advanced data services assets and reintegrate with Verizon California Inc. (Verizon).
2. D. 03-06-044 also granted Verizon's motion to withdraw its earlier filed application to transfer intrastate advanced data services assets to VADI.
3. According to OP #6 of D. 03-06-044, Verizon shall file and service a compliance filing in this proceeding containing an explanation of the accounting and ratemaking treatment it proposes to be employed. "It shall identify 1) the specific accounts from the FCC Part 32 Uniform System of Accounts that it will use to classify the assets, 2) the proposed ratemaking treatment of the assets (e.g., whether assets will be allocated to federal jurisdiction, state jurisdiction, or a combination), 3) whether it will treat the assets above-the-line or below-the line, and 4) the proposed

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NRF service categorization (Category I, II or III) of the advanced services, 5) the amount of assets subject to the license agreement between VADI and Verizon and the reimbursement paid to Verizon for the length of the license agreement, 6) the amount of collocation space transferred to VADI while it operated independently and the reimbursement paid to Verizon for collocation, and 7) whether VADI valued the assets it purchased and is now reintegrating at "original cost." The explanation of the accounting and ratemaking treatment shall also specify how Verizon intends to track the operation of the advanced services and its associated assets, liabilities, revenues and costs. Verizon shall include in its compliance filing the change in its organization chart from before and after the re-integration of VADI into Verizon."

4. On July 1, 2003, Verizon filed its AL 10,550 in compliance with OP #6 of D. 03-06-044.
5. On July 29, 2003, ORA filed its protest alleging that the compliance filing was incomplete and asking for additional information.
6. On August 5, 2003, Verizon provided the additional information sought by ORA while stating that the ORA protest was not timely.
7. ORA's protest was within the 20 days after appearance on the Commission's Daily Calendar.
8. ORA did not file additional comments or protests regarding Verizon's additional information.
9. With this additional information provided by Verizon, Verizon has met the requirements of OP #6 of D. 03-06-044.

THEREFORE IT IS ORDERED THAT:

1. Verizon's compliance filing in AL 10,550, with the additional information provided, is in compliance with the requirements of OP #6 of D. 03-06-044.

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2. This matter is closed.

This Resolution is effective today.

I hereby certify that the Public Utilities Commission adopted this Resolution at its regular meeting on April 7, 2005. The following Commissioners approved it:

STEVE LARSON
Executive Director